Statement of Senator Tim Johnson
Senate Banking Committee
"Turmoil in U.S. Credit Markets: Impact on the Cost and Availability of Student Loans."
April 15, 2008

Chairman Dodd, Thank you for holding this hearing on the effect of the credit crunch on student loans. Many students have just received their acceptance letters from colleges and universities across the country. Those same students are now faced with the daunting task of finding the means to pay for their education.

Families must now fill out the complicated FAFSA for federal aid. According to the College Board, Stafford Loans provided $63.9 billion in new loans to students and their parents in Fiscal Year 2007. The Federal Family Education Loan program provided 11,359,000 new loans averaging approximately $4,494 each, and the Direct Loan program provided 2,791,000 new loans averaging approximately $4,603 each. While these loans are not within the jurisdiction of the Banking Committee, many of the 14,150,000 students who received federal aid may face fewer and more expensive options because of tightening credit and a slowdown in the auction-rate securities market.

I have heard from lenders and the student loan guarantee agency in my state and they are working hard to ensure that students have the funds necessary to attend college, but every area of the country is not as fortunate, and lenders in South Dakota do not exist in a vacuum. After raising my concerns with Treasury Secretary Paulson and Secretary of Education Margaret Spellings, their response, dated March 28, 2008, stated that, "we too are concerned about the recent auction failures in the student loan sector, we believe they reflect a general stress in the credit markets rather than specific concerns about the underlying student loan collateral."

Even if the collateral is good, if there is no way to securitize the debt, lenders will be unable to offer the same number of loans that they have in the past. Private loans are also facing the constraints of the market and yet they are increasingly necessary as working families struggle with the high costs of post-secondary education. It is my hope that this hearing will bring greater light to the challenges that face student lenders and borrowers. The witnesses today also have a forum to suggest ways to provide additional liquidity for student loans and maintain access to college for students.

Student loans are an investment in the productivity, innovation and excellence of our nation's children and its future. We cannot throw up our hands and tell our college-bound children to wait out the credit crunch. It is our responsibility to ensure that opportunities for higher education do not become a victim of the current market situations.